

# Agenda Report

February 1, 2021

**TO:** Honorable Mayor and City Council

**THROUGH:** Economic Development and Technology Committee (January 28, 2021)

**FROM:** Housing Department

**SUBJECT: APPROVAL OF HOUSING ACQUISITION LOAN AGREEMENT WITH HERITAGE HOUSING PARTNERS TO PROVIDE PURCHASE FINANCING IN AN AMOUNT NOT TO EXCEED \$607,500 TO IMPLEMENT PURCHASE OPTIONS ON AFFORDABLE HOMEOWNERSHIP UNITS AT 588 N. FAIR OAKS AVENUE, #103 AND 106 E. SUMMIT GROVE BOULEVARD, #304**

## **RECOMMENDATION:**

It is recommended that the City Council take the following actions:

- 1) Find that the proposed housing financing and acquisition activity, as described in this agenda report, does not have a significant effect on the environment and has been determined to be categorically exempt under Class 26 (Acquisition of Housing) of the State California Environmental Quality Act ("CEQA") and, specifically, Section 15326 of the State CEQA Guidelines;
- 2) Approve a budget amendment appropriating \$607,500 from the Inclusionary Housing Fund Unappropriated Fund Balance to the Housing Department's FY 2021 operating budget for the HHP Housing Acquisition Project;
- 3) Approve certain key business terms, as described in this agenda report, of the proposed Housing Acquisition Loan Agreement with Heritage Housing Partners; and
- 4) Authorize the City Manager to execute any and all documents necessary to effectuate the staff recommendation.

## **BACKGROUND:**

Since 2012 the City of Pasadena has entered into housing acquisition loan agreements with local developer Heritage Housing Partners ("HHP"), as the non-profit designee, to acquire: 1) City-assisted units in affordable homeownership projects developed by

## HHP ACQUISITION LOAN AGREEMENT

February 1, 2021

Page 2 of 4

HHP; or 2) Inclusionary units that were developed with no City subsidies. These two types of affordable units are subject to deed restrictions which provide the right of first refusal to purchase the property upon the homeowner submitting a Notice of Intent to Sell. If the right of first refusal is not exercised, the homeowner may sell the property at market price in which case the City would receive an equity share of the sale proceeds but the deed restrictions would be extinguished, resulting in the loss of an affordable unit to the market. On the other hand, by exercising the right of first refusal to purchase, the property is preserved as affordable housing within the City's housing stock. Priority in the selection of qualified buyers will be in accordance with the City's local preference guidelines.

Recently, two (2) deed-restricted homeownership units have come up for resale.

- 106 E. Orange Grove Blvd., Unit 304 in the Summit Grove project developed by HHP. This three-bedroom unit is deed-restricted at the moderate income level. Owners Christina and Sean Leahy will be relocating outside of Pasadena.
- 588 N. Fair Oaks Ave., Unit 101 in the Fair Oaks Court project developed by HHP. This one-bedroom unit is deed-restricted at the low income level. Owner Blanche Falcon passed away on November 16, 2020 and her beneficiary intends to sell.

In December 2020, HHP submitted to the City a loan request in the amount of \$607,500 to acquire the Properties. In the interest of preserving the affordability of the Properties, it is recommended that the City provide \$607,500 in purchase money financing to HHP for the acquisition and resale of the Properties.

Under the City's previous housing acquisition loan agreements with HHP over the past eight years, HHP has successfully acquired nine (9) deed restricted affordable units and resold them to qualified low and moderate income first-time homebuyers. The acquisition financing extended by the City to HHP were fully repaid from the resale transactions. The most recent City loan made to HHP was in March 2018, in the total amount of \$295,500 to acquire a unit in the Fair Oaks Court development. HHP repaid the City loan in full from the resale transaction, and the property was preserved as an affordable unit in the City's housing inventory.

HHP is an experienced housing organization with a strong track record in developing, marketing and selling affordable ownership housing. HHP's completed projects in Pasadena include Haskett Court, Fair Oaks Court, Herkimer Gardens, and Summit Grove. The nonprofit has extensive experience working with income-qualified first-time homebuyers with credit issues, and familiarity with mortgage programs designed for these buyers. HHP maintains an interest list of 7,599 subscribers of whom 4,227 have indicated a preference for purchasing a home in Pasadena.

The Internal Housing Loan Committee, at its meeting of January 21, 2021, reviewed and approved the proposed transaction.

**KEY BUSINESS TERMS OF HOUSING ACQUISITION LOAN AGREEMENT**

The City's provision of purchase money financing to HHP shall be made in accordance with a Housing Acquisition Loan Agreement (the "Agreement"). The key terms of the Agreement are as follows:

- a) The total amount of the City acquisition financing to shall not exceed \$607,500.
- b) HHP shall utilize the City financing to acquire deed-restricted homeownership units located at 588 N. Fair Oaks Ave., Unit #101 and 106 E. Orange Grove Blvd., Unit #304 (the "Properties").
- c) The acquisition loan shall be evidenced by a promissory note with the City as beneficiary and secured by a first trust deed on the acquired Properties.
- d) The term of the acquisition loan shall not exceed 12 months unless a longer term is agreed to at the discretion of the City's Department of Housing Director (the "Housing Director").
- e) To minimize the cost of the affordable housing transaction, the City loan to HHP will bear no interest.
- f) HHP's acquisition price for each of the Properties shall not exceed a price based on the affordable housing cost for low or moderate income families (as the case may be), as determined by the City Department of Housing.
- g) HHP shall utilize the City loan funds to acquire the Property no later than 6/30/21.
- h) HHP shall re-sell each of the Properties to qualified low or moderate income families (as the case may be) in accordance with the City's affordable housing deed restrictions and the City's local preference policy.
- i) The costs of the transactions shall be reviewed by the Housing Department for approval prior to closing. Such costs may generally not exceed 4.00% of the sales price, which includes a commission to HHP of less than 3.00% for each of the Properties. However, the Housing Director has the discretion to approve costs up to 6.00% if the transaction is determined to require greater than normal expenses (e.g. repairs).
- j) Priority in the selection of qualified buyers will be in accordance with the City's local preference guidelines.

**COUNCIL POLICY CONSIDERATION:**

The proposed action is consistent with the City's General Plan - Housing Element and the Five-Year Consolidated Plan. It also supports and promotes the quality of life and the local economy -- a goal of the City Council's Strategic Plan.

**ENVIRONMENTAL ANALYSIS:**

The implementation of the staff recommendation to provide financing for the purchase of the subject property does not have a significant effect on the environment and has been determined to be categorically exempt under Class 26 (Acquisition of Housing) of the State California Environmental Quality Act ("CEQA"), and, specifically, Section

HHP ACQUISITION LOAN AGREEMENT

February 1, 2021

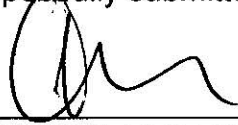
Page 4 of 4

15326 of the State CEQA Guidelines. No further CEQA review is required for this activity.

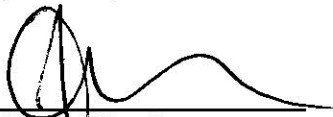
**FISCAL IMPACT:**

Approval of the subject recommendation will increase the Department's FY 2021 Operating Budget by the amount of \$607,500 by transferring said amount from the unappropriated fund balance of the Inclusionary Housing Trust Fund. The proposed City financing to implement HHP's acquisition of the subject properties will be drawn from Inclusionary Housing Trust Fund (Account No. 23916003-816700-51402). The action will reduce the available balance of the Inclusionary Fund to approximately \$3.14 million in non-earmarked funds available for new project commitments

Respectfully submitted,

  
for WILLIAM K. HUANG  
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